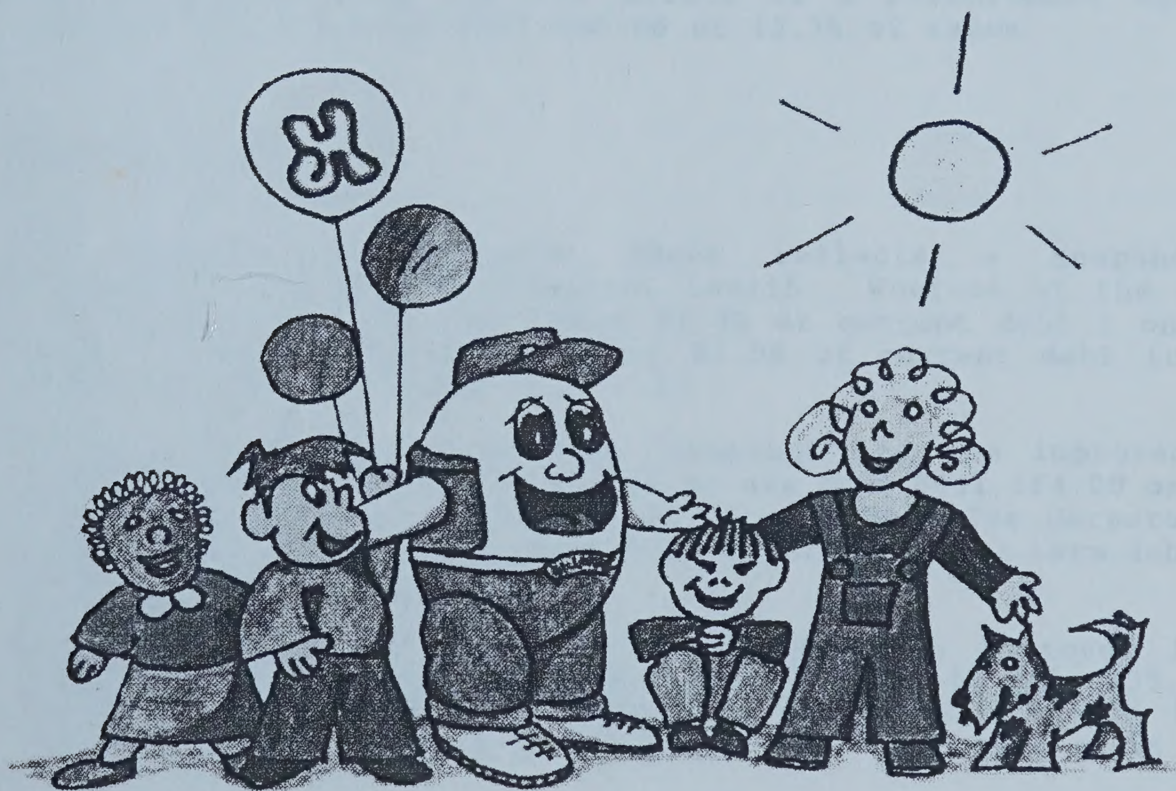
Humpty's

Restaurants International Inc.

A GROWING TRADITION !



1994

ANNUAL REPORT

Letter to Shareholders

1994 REVIEW

The fiscal results for the year ending December 1994 were very encouraging. The Corporation recorded a net income of $220,660.00 in 1994 versus a loss of $106,141.00 in 1993. This represents a turnaround of 308% from 1993 to 1994. While the net income represents a very respectable 10.3% of revenues, given the tax loss carry forwards this has the effect of a performance equal to profits before tax of $337,000.00 or 15.7% of sales.

BALANCE SHEET

The Corporation's balance sheet reflects a snapshot of significantly improved financial health. Whereas at the end of 1993 it had 26 cents for every $1.00 of current debt ; one year later it has 65 cents for every $1.00 of current debt (current ratio at 0.65 : 1 versus 0.26 : 1)

Of major relevance with this "snapshot" is the improved debt position whereby current liabilities are down $641,264.00 or 55.8% and current assets are up $26,728.00 or 8.8%. The Corporation's total contingencies and commitments (short and long term debt) are down $369,262.00 or 13.9%.

The Corporation's deficit in equity position improved from a deficiency of $337,354.00 on December 31, 1993 to only $39,275.00 one year later. At this rate, the Corporation should have a positive equity position by the end of its first quarter in fiscal 1995.

INCOME STATEMENT

Gross revenues reflect a 13.9% ($262,308.00) increase over 1993 while operating expenses were virtually unchanged (0.3% increase). The Corporation is encouraged by its income from operations at $458,368.00 or 21.4% of sales versus $200,265.00 or 10.8% of sales in 1993.

1993 ACTIVITIES

Improved sales by the majority of franchise locations resulted in an increase of 25.8% in Royalty Fees. The restructuring and cleansing that the Humpty's system went through in 1992 and 1993 contributed to the increased sales in 1994. New ownership of franchise locations provided renewed energy to the system.

The 1994 Advertising program provided a renewed awareness of this Corporation. More mascots were produced; plus each location disbursed various amounts of funds to support local activities in their communities. More than ever, in 1994 the Corporation promoted the term "Family" in its advertising at the same time enforcing its position as a strong corporate citizen.

In 1994 this Corporation closed its inner-city Manulife location in Edmonton. The location was managed very well, however it was the only remaining "downtown" location in the system. The "downtown" locations have not succeeded (Calgary - Penny Lane, Saskatoon). It only cost the Corporation $80,000.00 to remove itself from the lease obligations despite the fact there were still six years remaining.

Three new locations were opened in 1994:

Calgary - Southland	-	May 1994
Moose Jaw, Saskatchewan	-	October 1994
Lacombe, Alberta	-	November 1994

The Moose Jaw location experienced the highest sales for the first month in the history of this Corporation ($130,000.00). A further reminder of how well the Humpty's system is received in new communities.

1995 OUTLOOK

The Corporation is optimistic that 1995 will continue to demonstrate improvements in all segments: sales; cost & expense controls; profitability; and further reduction of franchise re-acquisition costs.

The following two locations will be closed in 1995 due to poor performance:

May 1995 - Kamloops, British Columbia

- the lease expired. There will be no financial responsibility for the Corporation.

May 1995 - Fort McMurray, Alberta

- very poor performance.
- there are two years remaining on the lease.
- Corporate financial responsibility is between $12,000.00 and $18,000.00.

The Lacombe, Alberta location will have the Humpty's name removed in 1995 even though this location only opened in November 1994. The motel that this location was attached to changed management. The new management did not want the Humpty's system as they preferred to establish their own. They offered the Corporation a financial settlement to get out of their Franchise Agreement. Because the Corporation does not wish to have troubled franchisees, it accepted the settlement. The location was projected to do $600,000.00 annual sales.

The following locations will open in 1995:

March 1995 - Salmon Arm, British Columbia

- expected annual volume of $1,100,000.00.

April 1995 - Crossfield, Alberta
Highway #2 North

- expected annual volume $1,500,000.00 (this location will have the highest volume in 1995)

May 1995 - Winnipeg, Manitoba

- expected annual volume of $1,000,000.00.

June 1995 - Grande Prairie, Alberta

- expected annual volume of $950,000.00.

November 1995 - Fort St. John, British Columbia

- expected annual volume of $1,100,000.00.

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With both Kamloops and Fort McMurray each generating annual revenues of only $375,000.00 and Lacombe $600,000, the net gain to the Corporation with three closures and five openings is $344,500.00 annual revenues.

A new 4000 square foot location has already been signed for south Calgary with the projected opening date being March 1996. Negotiations are underway for new locations in Cranbrook, Prince George, and Vancouver, British Columbia; northeast Edmonton, Alberta; and Prince Albert, Saskatchewan.

The Corporation will also continue to pursue opportunities with regard to acquiring another family restaurant chain. It has identified three possible candidates in the B.C. market. These candidates have between twelve and twenty-two locations each. Such an acquisition would give the Corporation immediate visibility in the B.C. market as presently there are only four locations.

With the 1994 financial results being the best in the Corporation's history, it has now positioned itself for continued profitable growth in 1995 and beyond.

The Corporation continues to employ a very lean Head Office. The staff have worked very conscientiously over the past three years to bring it to this point. The Corporation sincerely appreciates their efforts. The Corporation also appreciates the continued vote of confidence the shareholders have exhibited over the past three years.

The tradition will continue.

Yours truly,

HUMPTY'S RESTAURANTS INTERNATIONAL INC.

Don Koenig
President

* Any inquiries regarding the Auditors Report and Consolidated Financial Statements should be directed to:

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Don Koenig (403) 269-4675

KENWAY
MACK
SLUSARCHUK
STEWART

Chartered Accountants

Humpty's Restaurants International Inc.

Consolidated Financial Statements
As at December 31, 1994 and 1993
Together with Auditors' Report

Auditors' Report

To the Shareholders of Humpty's Restaurants International Inc.:

We have audited the consolidated balance sheet of Humpty's Restaurants International Inc. as at December 31, 1994 and 1993 and the consolidated statements of income, deficit and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

March 22, 1995

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Humpty's Restaurants International Inc.

Consolidated Balance Sheet -- December 31, 1994 and 1993

Assets

	1994	1993
Current assets:		
Accounts receivable	$ 125,032	$ 136,279
Inventory	38,686	28,425
Prepaid expenses and deposits	99,072	65,684
Notes receivable, current portion (Note 3)	66,945	72,619
	329,735	303,007
Notes receivable, net of current portion (Note 3)	186,151	247,161
Capital assets (Note 4):		
Cost	2,051,572	2,009,031
Less - Accumulated amortization	323,643	244,201
	1,727,929	1,764,830
	$ 2,243,815	$ 2,314,998

Liabilities

	1994	1993
Current liabilities:		
Bank indebtedness	$ 43,854	$ 83,431
Accounts payable	331,259	821,937
Deferred revenue	5,000	25,000
Long-term debt, current portion (Note 5)	127,986	218,995
	508,099	1,149,363
Long-term debt, net of current portion (Note 5)	1,774,991	1,502,989
	2,283,090	2,652,352
Contingencies and commitments (Note 6)		

Shareholders' Equity

	1994	1993
Share capital (Note 7)	1,112,804	1,014,754
Deficit	(1,152,079)	(1,352,108)
	(39,275)	(337,354)
	$ 2,243,815	$ 2,314,998

Approved by the Board:

_______________ Director.

_______________ Director.

Humpty's Restaurants International Inc.

Consolidated Statement of Income

For the Years Ended December 31, 1994 and 1993

	1994	1993
Revenue:		
Royalties	$ 773,496	$ 615,047
Advertising participation fees	375,158	309,102
Franchise sales	75,000	65,000
Other	80,235	53,807
	1,303,889	1,042,956
Restaurant operations:		
Sales	1,232,368	1,266,187
Cost of sales	392,390	427,584
Gross margin	839,978	838,603
	2,143,867	1,881,559
Expenses:		
Wages and employee benefits	623,398	670,955
Advertising and promotion	342,087	325,721
Interest on long-term debt	272,911	205,957
Professional fees	101,532	102,692
Amortization	85,939	79,956
Repairs and maintenance	61,813	45,992
Telephone and utilities	54,606	56,786
Office	42,533	57,129
Licenses and taxes	41,042	31,555
Interest and bank charges	39,852	68,735
Equipment rental	19,786	35,816
	1,685,499	1,681,294
Income from operations	458,368	200,265
Other income (loss):		
Gain on settlement of debt	62,627	30,877
Franchise reacquisition costs	(177,595)	(271,988)
Write-off of amount due from related company	(122,740)	(65,295)
	(237,708)	(306,406)
Income (loss) before income taxes	220,660	(106,141)
Income taxes:		
Current	116,000	-
Utilization of losses carried forward	(116,000)	-
	-	-
Net income (loss)	$ 220,660	$ (106,141)

Humpty's Restaurants International Inc.

Consolidated Statement of Deficit

For the Years Ended December 31, 1994 and 1993

	1994	1993
Deficit, beginning of year	$ (1,352,108)	$ (1,243,467)
Net income (loss)	220,660	(106,141)
Dividends	(20,631)	(2,500)
Deficit, end of year	$ (1,152,079)	$ (1,352,108)

Humpty's Restaurants International Inc.

Consolidated Statement of Changes in Cash Position

For the Years Ended December 31, 1994 and 1993

	1994	1993
Operating activities:		
Net income (loss)	$ 220,660	$ (106,141)
Items not involving cash		
Amortization	85,939	79,956
Write-off of amount due from related company	-	65,295
	306,599	39,110
Changes in non-cash working capital balances	(543,080)	94,521
	(236,481)	133,631
Financing activities:		
Proceeds from long-term debt	428,261	94,758
Proceeds from issue of share capital	98,050	-
Repayment of long-term debt	(247,268)	(193,263)
Dividends paid	(20,631)	(2,500)
Advances from related company	-	39,567
	258,412	(61,438)
Investing activities:		
Notes receivable	66,685	(81,565)
Proceeds from sale of capital assets	10,200	84,496
Purchase of capital assets	(59,239)	(42,597)
	17,646	(39,666)
Increase in cash	39,577	32,527
Bank indebtedness, beginning of year	(83,431)	(115,958)
Bank indebtedness, end of year	$ (43,854)	$ (83,431)

Humpty's Restaurants International Inc.

Notes to the Consolidated Financial Statements

December 31, 1994 and 1993

1. **Going Concern**

The consolidated financial statements of the Company as at December 31, 1994 have been prepared on the basis of a going concern. As such, an underlying assumption exists that the Company will realize its assets and settle its liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. The Company's ability to continue as a going concern is dependent upon its ability to continue to achieve profitable operations and generate funds therefrom.

2. **Significant Accounting Policies**

Consolidation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiaries.

Inventory

The inventory is valued at the lower of cost and net realizable value.

Amortization

Capital assets are amortized using the declining balance method at the following rates:

Building	4%
Furniture and fixtures	20%
Equipment	20%
Automotive	35%

Revenue Recognition

Revenue from franchise sales is recognized when all material conditions relating to the sale have been substantially performed.

Franchise Reacquitision Costs

All expenses and revenues related to the operation of reacquired franchises and any gain or loss on resale of the assets of reacquired franchises are grouped together and shown on a net basis.

3. **Notes Receivable**

	1994	1993
The notes receivable are unsecured and repayable in equal monthly instalments totalling $8,187 including interest at rates of 12% to 15.5%.	$ 253,096	$ 319,780
Less - Current portion	66,945	72,619
	$ 186,151	$ 247,161

4. **Capital Assets**

	1994		1993	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 505,000	$ -	$ 505,000	$ -
Building	1,247,121	181,129	1,247,121	138,492
Furniture and fixtures	157,443	74,923	122,282	56,924
Equipment	97,114	51,068	96,055	39,508
Automotive	44,894	16,523	38,573	9,277
	$2,051,572	$ 323,643	$ 2,009,031	$ 244,201

5. **Long-Term Debt**

	1994	1993
Mortgages		
Payable in monthly instalments totalling $9,683 including interest at 9% to 12%, due between February, 1995 and February, 1996, secured by land and building.	$ 780,226	$ 789,907
Payable in monthly instalments of $5,000, interest only at 12%, secured by land and building.	500,000	500,000
Payable in monthly instalments of $2,793 including interest at 18%, due September, 1999, secured by land and building.	106,559	110,000
Loans Payable		
Payable in monthly instalments totalling $4,723 including interest at 8% to prime plus 1.25%, due between January, 1995 and August, 2000. A registered chattel mortgage on equipment, general assignment of accounts receivable, postponement of creditors claims, land and buildings are pledged as security for the loans.	97,584	37,399

5. **Long-Term Debt,** continued..

Sale-Leaseback Agreement		
Payable in monthly instalments of $6,250, interest only at 25%, due December, 1997, secured by certain equipment.	300,000	-
Notes Payable		
Payable in monthly instalments totalling $11,326 including interest at 10% to 18%, due between January, 1995 and June, 1997 (two notes payable are secured by certain notes receivable totalling $55,370).	97,925	246,502
Finance Contracts		
Payable in monthly instalments totalling $1,105 including interest at 9.25% to 17.75%, due between October, 1995 and September, 1998, secured by certain equipment.	20,683	17,158
Due to shareholders	-	21,018
	1,902,977	1,721,984
Less - Current portion	127,986	218,995
	$ 1,774,991	$ 1,502,989

Principal repayments required for each of the next five years are as follows:

1995	$ 127,986
1996	72,140
1997	357,225
1998	64,482
1999	54,042
Thereafter	1,228,931
	$1,902,977

6. **Contingencies and Commitments**

a) The Company has entered into contracts with each of its franchisees that require continuing performance on the part of the Company.

b) The company is contingently liable under head lease agreements with the landlords of its franchisees. The likelihood or amount of any liability under these agreements cannot be reasonably determined. Any losses will be charged to income in the year incurred.

c) The Company has guaranteed bank loans advanced to a related company. At December 31, 1994 the balance of these loans was $104,000. Any payments under the guarantee will be charged to income in the year incurred.

d) The Company has been named as defendant in a claim relating to a former franchise location. The total of the claim is $120,000. Any payments resulting from this claim will be charged to income in the year incurred.

7. **Share Capital**

Authorized -
Unlimited number of common voting shares.
Unlimited number of first preferred shares, issuable in series.
12,000 8% cumulative, redeemable, retractable, convertible first preferred shares, series A.
12,000 10% cumulative, redeemable, retractable, convertible first preferred shares, series I.
Convertible on the basis of fifty common shares for one preferred share.
714,285 10% cumulative, redeemable, retractable, convertible first preferred shares, series II.
Convertible on the basis of one common share for one preferred share.
Unlimited number of second preferred shares, issuable in series.

	1994	1993
Issued -		
13,964,785 (1993 - 12,684,285) common shares	$ 996,804	$ 898,754
4,640 first preferred shares, series I	116,000	116,000
	$1,112,804	$1,014,754

(a) **Common Shares**

During the year, 1,280,500 common shares were issued for settlement of accounts payable of $98,050.

7. **Share Capital,** continued...

(b) **Stock Option Plans**

The following stock options were outstanding at December 31, 1994.

Number of Shares	Exercise Price	Expiry Date
135,000	$ 0.10	October 25, 1995
884,500	$ 0.30	May 15, 1996
200,000	$ 0.14	October 17, 1999

(c) **Dividends in Arrears**

Dividends on the first preferred shares, series I are $8,700 in arrears.

8. **Net Income Per Share**

Net income (loss) per share has been calculated using the weighted average number of shares outstanding during the year.

	1994	1993
Basic	$ 0.016	(.005)
Fully diluted	$ 0.015	(.005)

9. **Income Taxes**

The Company has income tax losses which may be used to reduce future years' taxable income. The losses expire as follows:

1999	$ 3,175
2000	33,239
	$ 36,414

The potential benefits relating to these losses have not been recorded in the financial statements.

10. **Additional Franchise Information**

	1994	1993
Number of restaurant locations in operation		
Franchises		
Beginning of year	29	23
New franchises sold	3	3
Reacquired franchises sold	-	5
Reacquired franchises	-	-
Franchises closed	(1)	(2)
End of year	31	29
Reacquired franchises		
Beginning of year	-	5
Reacquired	-	-
Resold	-	(5)
End of year	-	0
Franchisor owned outlets	1	1
Total locations	32	30

11. **Comparative Financial Statements**

Certain figures in the 1993 financial statements have been reclassified to be consistent with the presentation used in 1994.